

Section 790.305 Temporary Exclusion

Prior to January 1, 1998, Subpart D shall not be applicable to any incumbent LEC, which is not also a Tier-1 LEC as those terms are defined in Section 790.10.

(Source: Added at \_\_\_\_ Ill. Reg. 14779, effective November 1, 1995)

Section 790.310 Line-side Interconnection--Standards for Interconnection Arrangements

- a) All switch-associated grades-of-service and installation, repair and maintenance intervals which apply to a LEC's bundled local exchange end-user access services shall also apply to that LEC's corresponding unbundled port services, unless the grades-of-service or intervals are materially improved due to the unbundling, in which case the improved grades-of service intervals shall apply.
- b) All transport-associated grades-of-service and installations, repair and maintenance intervals which apply to a LEC's bundled local exchange end-user access services also shall apply to that LEC's corresponding unbundled loop services, unless the grades-of-service or intervals are materially improved due to the unbundling in which case the improved grades-of-service or intervals shall apply.
- c) All switch-associated optional features, functions, services and capabilities available with each bundled local exchange end-user access service shall be available under identical rates, terms, and conditions for the corresponding unbundled port services.
- d) All transport-associated optional features, functions, services and capabilities available with each bundled local exchange end-user access service shall be available under identical rates, terms, and conditions for the corresponding unbundled loop services.

(Source: Added at \_\_\_\_ Ill. Reg. 14779, effective November 1, 1995)

Section 790.320 Line Side Interconnection--Implementation of Line Side Interconnection

- a) A LEC shall file intrastate tariffs offering "loops" and/or "ports" within 180 days after receiving a bona fide request.
- b) LECs shall file intrastate tariffs offering "loop subelements" within 180 days after receiving a "bona fide request for loop subelements."
- c) After a LEC has offered "loops", "ports", or "loop subelements" in its tariff for a particular exchange, it must file intrastate tariffs offering those same elements in other exchanges within 60 days after a "bona fide request" for those services in another exchange.
- d) Nothing in this Section shall preclude a LEC from filing intrastate tariffs offering "loops", "ports", or "loop subelements" before receiving a bona fide request.
- e) LECs may petition for a waiver of the requirement to provide "loops", "ports", or "loop subelements" within 60 days after receiving a bona fide request. The petitioner must demonstrate that offering line-side interconnection or offering line-side interconnection in the manner set forth in this Subpart is not technically or economically practicable, considering demand for the service, and/or offering line-side interconnection would be contrary to the public interest.

(Source: Added at \_\_\_\_ Ill. Reg. 14779, effective November 1, 1995)

SUBPART E: REPORTING REQUIREMENTS

Section 790.400 Reporting Requirements

- a) Each LEC subject to this Part shall file with the Commission reports on interconnection. These reports shall be filed on May 1, 1996 and May 1, 1998.
- b) The reports required by this Section shall identify:
  - 1) Entities using expanded interconnection in the service areas of the LEC; and
  - 2) The location at which each interconnection occurs.

(Source: Section 790.400 renumbered from Section 790.300 at \_\_\_\_\_  
Ill. Reg. <sup>14779</sup>, effective November 1, 1995)

ATTACHMENT C

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Bell Telephone Company	:	
Proposed introduction of a trial	:	94-0096
of Ameritech's Customers First	:	
Plan in Illinois	:	
Illinois Bell Telephone Company	:	
Addendum to proposed introduction	:	94-0117
of a trial of Ameritech's	:	
Customers First Plan in Illinois	:	
AT&T Communications of Illinois,	:	
Inc.	:	
Petition for an investigation and	:	94-0146
Order establishing conditions	:	
necessary to permit effective	:	
exchange competition to the extent:	:	
feasible in areas served by	:	
Illinois Bell Telephone Company	:	
Illinois Bell Telephone Company	:	
Proposed introduction of a trial	:	94-0301
of Ameritech's Customers First	:	Consol.
Plan in Illinois (refiled)	:	

ORDER

April 7, 1995

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STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Illinois Bell Telephone Company	:	
	:	
Proposed introduction of a trial	:	94-0096
of Ameritech's Customers First	:	
Plan in Illinois	:	
	:	
Illinois Bell Telephone Company	:	
	:	
Addendum to proposed introduction	:	94-0117
of a trial of Ameritech's	:	
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AT&T Communications of Illinois,	:	
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of Ameritech's Customers First	:	Consol.
Plan in Illinois (refiled)	:	

ORDER

By the Commission:

This proceeding involves four consolidated dockets and two companion rulemakings. On February 15, 1994, Illinois Bell Telephone Company d/b/a Ameritech Illinois ("Illinois Bell") filed tariffs seeking approval of its "Customers First" plan on a trial basis in the State of Illinois. The tariffs were suspended by Illinois Commerce Commission ("Commission") Order on March 9, 1994, and this proceeding was initiated as Docket 94-0096.

On March 7, 1994, Illinois Bell filed an addendum to its Customers First tariffs. The Commission entered an order suspending the addendum on March 23, 1994. The second suspension proceeding, Docket 94-0117, was consolidated with Docket 94-0096 on April 19, 1994 upon the Hearing Examiners' own motion.

On April 11, 1994, AT&T petitioned for an investigation and order to "establish the conditions necessary to permit effective

exchange competition to the extent feasible in the areas served by Ameritech." The petition was assigned Docket Number 94-0146, and was consolidated with Dockets 94-0096 and 94-0117 on June 2, 1994, pursuant to a Motion to Consolidate filed by AT&T on April 15, 1994.

On June 1, 1994, Staff of the Commission ("Staff"), Illinois Bell and the Illinois Attorney General filed a Joint Motion in the consolidated Dockets requesting that the Commission enter an Interim Order establishing a procedure whereby a ruling on Illinois Bell's Customers First tariffs would be deferred from January 15, 1995 to March 15, 1995. In the Joint Motion, Illinois Bell agreed to withdraw its Customers First tariffs and to refile them by July 1, 1994. The Commission entered an Interim Order on June 15, 1994 granting the request set forth in the Joint Motion.

Pursuant to the terms of the Interim Order, on July 1, 1994, Illinois Bell refiled its Customers First tariffs with minor revisions. The Commission entered a Suspension Order on July 20, 1994 and initiated Docket 94-0301. The Hearing Examiners, upon their own motion, consolidated Docket 94-0301 with the other consolidated Dockets.

On February 8, 1994 the Commission entered two orders to commence rulemakings concerning the development and adoption of rules relating to: a) intra-market service area ("intraMSA") presubscription and changes in dialing arrangements related to the implementation of such presubscription and b) line side interconnection and reciprocal interconnection. The rulemakings were docketed as 94-0048 and 94-0049 respectively, and several workshops were held.

The parties to the captioned consolidated proceedings and the rulemakings realized that there were a number of interrelated issues and that the proceedings should, therefore, be heard simultaneously in order to avoid multiple hearings on similar issues. Accordingly, the parties filed testimony simultaneously addressing issues in the consolidated proceedings and the rulemakings. However, since rulemakings are governed by separate procedural requirements set forth in the Illinois Administrative Procedure Act, the Commission resolves a number of issues through entry of "First Notice" Interim Orders issued in Dockets 94-0048 and 94-0049.

The following parties have intervened or entered an appearance in these dockets: Cable Television and Communications Association of Illinois ("CTCA"); the Illinois Independent Telephone Association ("IITA"); TC Systems, Illinois ("TCG"); GTE North, Inc. and GTE South, Inc. (collectively, "GTE"); the Cook County State's Attorney, on behalf of the People of Cook County ("Cook County");

the Attorney General, on behalf of the People of the State of Illinois ("Attorney General" or "AG"); Citizens Utility Board ("CUB"); AT&T Communications of Illinois, Inc. ("AT&T"); MCI Telecommunications Corporation ("MCI"); Illinois Consolidated Telephone Company ("ICTC"); MFS Intelenet of Illinois, Inc. ("MFS"); LDDS Telecommunications ("LDDS"); Central Telephone Company ("Centel"); Sprint Communications Company, L.P. ("Sprint"); Southwestern Bell Mobile Systems, Inc., d/b/a Cellular One ("SBMS"); the City of Chicago ("Chicago"); LCI International Telecommunications ("LCI"); the Illinois Telephone Association ("ITA"); Mr. Jim Myers ("Myers"); and Zankle Worldwide Telecom Group ("ZWTC"). The Petition to Intervene filed by Keith Maydak was denied by the Hearing Examiners on June 27, 1994. All other Petitions to Intervene were granted.

Pursuant to notice as required by law and the rules and regulations of the Commission, hearings were held in these proceedings in Chicago, Illinois, on October 12-14, 17-21, 24-28, and 31; November 1-4, 7, 9-10, and 14-15, 1994, before duly authorized Hearing Examiners of the Commission. On November 15, 1994, the record was marked "Heard and Taken." The record in these proceedings consists of the testimony of 9 witnesses for Illinois Bell; 7 for AT&T; 5 for Staff; 5 for GTE; 4 for MCI; 3 for TCG; 2 for MFS; 2 for Centel; 2 for Sprint; 1 for CUB; 1 for ICTC; 1 for IITA; 1 for LDDS; and 1 for Myers.

Initial and reply briefs in these proceedings were submitted by Staff, Illinois Bell, AT&T, MCI, GTE, TCG, MFS, Sprint/Centel, CUB, ICTC, IITA, LDDS, AG, and CTCA. Mr. Myers filed an initial brief. A Hearing Examiners' Proposed Order was served on January 23, 1995. Exceptions were filed by Staff, Illinois Bell, AT&T, MCI, GTE, TCG, MFS, CUB, ICTC, IITA, LDDS, AG, and CTCA.

## **I. INTRODUCTION**

This proceeding provides the Commission with a unique opportunity to direct and encourage the profound changes which are taking place in the telecommunications industry. These changes require the Commission to develop new regulatory policies which can best meet the goals and objectives established by the Illinois General Assembly in the Universal Telephone Service Protection Law of 1985 ("the Act"). The Commission took an important first step in this process in October, 1994, through the issuance of an Order in Docket 92-0448. That Order established an alternative form of regulation for the noncompetitive services of Illinois Bell. A stated purpose of the new form of regulation was to "allow the Company and ratepayers to transition themselves to a more competitive telecommunications marketplace." Order, Docket 92-0448/93-0239 at 19-20. Indeed, shortly after entry of that Order the Commission approved the first applications it has received from

carriers seeking authority, pursuant to Section 13-405 of the Act, to provide local exchange services in an exchange already served by a certificated local exchange carrier. In essence, the event marked the de jure end of the local exchange monopoly in the State of Illinois.

An additional impetus for this proceeding was Illinois Bell's filing of proposed tariffs to effectuate the Customers First Plan in Illinois. The Customers First Plan is Illinois Bell's proposed approach to this ongoing, restructuring of the telecommunications industry. The Customers First tariffs, which we are considering herein, represent the Illinois portion of a multiple jurisdiction initiative of Ameritech, Illinois Bell's parent corporation. The plan consists of proposed modifications to both the exchange and access portions of Illinois Bell's intrastate tariffs. The primary changes that Illinois Bell proposes in the exchange tariff allow a customer to obtain local loops without any associated switching (unbundled loops) and to obtain switching without any associated loops (unbundled ports). The primary changes that Illinois Bell proposes in the intrastate access portion of its tariffs involve the rates, terms and conditions for what Illinois Bell calls Ameritech End Office Integration Service ("AEOIS")<sup>1</sup> and the rules for what Illinois Bell terms intraMSA "usage subscription."<sup>2</sup> As an integral part of the Customers First Plan, Ameritech intends that the Federal District Court with jurisdiction over the Modification of Final Judgment ("MFJ") in United States v. Western Electric, 552 F.Supp. 131; 569 F. Supp. 990, 993-94 (U.S.D.C., D.C. 1982), Civil Action No. 82-0192, would simultaneously approve, on a trial basis in Illinois, removal of the line of business restriction which precludes Illinois Bell from providing interMSA telecommunications services.

Shortly after the filing of the Customers First tariffs, AT&T filed a petition requesting the Commission to enter an Order that unconditionally and comprehensively establishes the conditions that

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<sup>1</sup>"End-office integration" refers to both the physical interconnection between competing local exchange carriers ("LEC") and the compensation that the carriers pay to one another for terminating traffic over each other's networks. To parallel the terminology used by almost all of the other parties and to avoid confusion, hereinafter we use the terms "interconnection" and "reciprocal compensation" to describe different aspects of Illinois Bell's "end-office integration" proposal.

<sup>2</sup> The term "intraMSA usage subscription" refers to arrangements for what is commonly known as "1+" presubscription for intraMSA services. Hereinafter, we use the term "intraMSA presubscription" to describe these arrangements.

will allow development to the extent feasible of effective competitive local exchange services in areas served by Illinois Bell. AT&T asserted that such an Order would allow a test of whether, and under what conditions, exchange competition possibly may develop.

Virtually all of the parties recognized that the consideration of regulatory policies intended to address emergent local exchange competition would be facilitated by a discussion of various public policy goals, principles and guidelines. In Part II of this Order, the Commission will describe the positions of the parties regarding these core concepts. Part III is an analysis of various components of Illinois Bell's Customers First tariff proposal, and the parties' responses and alternative proposals. Since the Customers First initiative is a tariff filing, the Commission is required to determine whether the proposed tariffs are just and reasonable, and must do so within the time frame established by law. Part III is in three sections: 1) interMSA relief linkage; 2) unbundling; and 3) costs studies and pricing for unbundled service offerings. In Part IV we briefly consider the appropriate legal status of new LECs before considering, in Sections V and VI, the parties' proposals regarding interconnection and reciprocal compensation, respectively. Part VII addresses number portability, while Part VIII discusses the application of regulatory requirements to new LECs. In Part IX we consider a number of miscellaneous issues before concluding in Part X with an evaluation of the need for follow-up proceedings.

## **II. PUBLIC POLICY GOALS AND PRINCIPLES TO ADDRESS EMERGENT COMPETITION IN LOCAL EXCHANGE AREAS**

### **Positions of the Parties**

#### **AT&T**

On April 11, 1994 AT&T petitioned the Commission to "enter an order that unconditionally and comprehensively establishes the conditions that will allow development to the extent feasible of effective competitive local exchange services in areas served by Illinois Bell Telephone Company." AT&T contends that adopting the conditions necessary to permit local exchange competition would serve the public interest in two ways. First, it would permit competition to develop in Illinois Bell's current service territories to the extent economically and technically feasible, producing the same sorts of benefits that have been achieved through the introduction of competition in the interLATA marketplace - lower prices, expanded service choices, increased innovation and enhanced efficiency. Second, it would allow an historic market test of the viability of competition in the local exchange. In AT&T's view, the State of Illinois is uniquely poised

to conduct such a test because its statutory mandate permits such a test and the Commission historically has favored competition wherever feasible. AT&T Ex. 1.0 at 3-6.

Mr. John Puljung, District Manager - State Government Affairs for AT&T identified nine conditions he believes must be met to allow local exchange competition to develop to the extent feasible.

(1) Elimination of franchise requirements, certification requirements and other state policies that burden entry.

AT&T views state policies that burden new entry as "the first clear impediment" to the development of local exchange competition because they can deter potential service providers from entering the local exchange market or make it more difficult for new entrants to provide exchange services profitably. Ms. Cathleen Conway, Regulatory Manager, AT&T Central Region, Government Affairs Division, testified that the Commission should minimize certification requirements for new entrants, at least initially, to avoid creating a significant barrier to entry for new LECs<sup>3</sup>. Moreover, AT&T contends that many of the existing certification requirements are unnecessary for new LECs because these requirements appear designed to prevent the abuse of market power, which new LECs will not have. AT&T states that if and when effective competition exists, certification requirements should be eliminated for incumbent LECs as well. AT&T Ex. 5.0 at 6.

AT&T believes that changes in the Act will be necessary to eliminate barriers to local exchange competition. Although Section 13-401 of the Act permits competitive entry, AT&T asserts that Section 13-405 hinders such entry by requiring a finding that a new competitor would not adversely affect prices, network design or the financial viability of the incumbent provider of local exchange services. In AT&T's view, the mere threat of the application of this ambiguous statutory language would deter potential entry even if the statute is not used explicitly to forbid such entry. AT&T Ex. 1.0 at 10-11.

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<sup>3</sup> The parties utilized various terms, including "Alternative Exchange Carriers" ("AECs"), "Competitive Local Exchange Service Providers" ("CLESPs") and "co-carriers", intended in most cases, to describe telecommunications carriers who receive a local exchange certificate pursuant to Section 13-405 of the Act in exchanges already served by a certificated local exchange carrier ("incumbent LEC"). To avoid confusion, and judgmental terminology, we will adopt Staff's convention and refer to these entities as "new LECs."

(2) Nondiscriminatory access to rights-of-way, conduits, and other pathways.

AT&T witness Dr. Robert A. Mercer, President of Hatfield Associates, testified that a series of laws, ordinances and preferential contracts give the LECs (and third parties, including state and local governments) a degree of control over the rights of way, conduit and other pathways to local exchange customers that other competitors would be unable to replicate. AT&T observes that it may be difficult for new LECs to obtain condemnation authority, which the incumbent LECs already possess, to acquire access to public rights of way. Because only Illinois Bell and other incumbent LECs know what facilities and rights of way exist, AT&T suggests that the Commission collect information regarding these facilities and arrangements and determine which of these arrangements are more favorable than those that new LECs could obtain. Once this information is obtained, AT&T recommends that the Commission order the incumbent LECs to allow new LECs to use the more favorable arrangements on the same terms that these arrangements are made available to the incumbent LECs. AT&T Ex. 1.0 at 12-13; AT&T Ex. 6.0 at 16-17.

(3) Numbering issues: portability, assignment and equal access.

AT&T contends that effective exchange competition will not be able to develop unless new LECs have equal access to, and use of, number resources. Included in this concept are number portability, neutral administration and nondiscriminatory assignment of numbering resources and dialing parity for intraMSA services. AT&T contends that with each of these issues, the services offered by incumbent LECs are more attractive than the services that would be offered by new LECs because of number preferences in favor of the incumbent LECs.

First, AT&T asserts that competition will be impaired substantially unless customers can change service providers freely without having to change their telephone numbers. It also maintains that new LECs should have access to the same capabilities and information (such as calling party number) available to the LEC, so that they can offer the same number-based services to customers. AT&T Ex. 1.0 at 13-14.

Second, AT&T contends that new LECs should have equal rights to, and control over, numbering resources as the incumbent LECs. It asserts that the current situation of LEC control over number assignment and administration should be replaced with a neutral administrator and equal assignment rights for new LECs to numbering resources. *Id.* at 14-15.

Finally, AT&T contends that new LECs must have dialing parity with the LECs if they are to compete with LEC services. Lack of dialing parity impedes competition by requiring customers, to the extent that they use competitors' services, to use more complicated dialing arrangements (e.g., 10XXX). AT&T argues that dialing disparity long has been found to impede the development of competition in other telecommunications services, and it will do so as well for intraMSA services unless and until intraMSA presubscription is implemented. *Id.* at 15-16.

(4) Unbundling of basic network components and all monopoly components of local exchange service.

This condition would be satisfied by full unbundling of the local exchange network into its basic network components and functions. AT&T contends that unbundling down to the basic functional levels is required to ensure that new LECs are not required to purchase local exchange services that they do not want or need or to bundle potentially competitive functions with noncompetitive ones. AT&T asserts that not only could such unbundling inhibit competition, it also could retard the deployment of competing technologies. *Id.* at 17-18.

(5) Comprehensive interconnection of all unbundled network components.

AT&T states that interconnection must be permitted at every "logical and reasonable" point in the unbundled network, on the same terms and conditions as the LECs offer such interconnection to themselves. In AT&T's view, all carriers, regardless of the type of service they provide, should compensate the facility provider at tariffed access rates, whether the access is used for interLATA, intraMSA toll, or local calls. Absent this condition, Dr. Mercer testified, each carrier's network would become "balkanized" and new LECs would be forced to pay for interconnection that they neither want nor need, thereby unnecessarily driving up new LECs' costs and market prices. AT&T Ex. 5.0 at 11-14; AT&T Ex. 1.0 at 19.

(6) Cost-based and efficient pricing of unbundled exchange services.

AT&T contends that it is critical for the Commission to adopt additional costing and pricing safeguards for unbundled services that are designed to permit competition based on efficiency and nondiscrimination. AT&T argues that proper pricing and costing rules can and should be used to replicate the discipline of the market - controlling prices and encouraging efficiency - until effective competition develops and market forces can perform such discipline. Accordingly, AT&T states that unbundled network components should be priced at or above Long-Run Service

Incremental Cost ("LRSIC"), as provided in the Act. AT&T Ex. 1.0 at 19-20.

To avoid any threat to universal service obligations, AT&T recommends a new funding mechanism be established that collects and distributes funds for universal service in a competitively neutral manner. AT&T witness Dr. Robert Willig, an economist, presented AT&T's proposal for a broad-based tax and individual subsidies to satisfy these criteria. AT&T Ex. 3.0 at 6-7; AT&T Ex. 1.0 at 20-21; see also AT&T Ex. 5.1 at 18.

**(7) Imputation principles for nondiscriminatory pricing.**

AT&T's seventh condition would require the LECs to impute to their own services the prices charged to new LECs for unbundled network components. According to AT&T, prices should be nondiscriminatory by market segment and type of carrier. LECs should not be permitted to discriminate in their own favor in pricing of unbundled services, for such discrimination would guarantee that LECs would have an unfair pricing advantage over their competitors. AT&T contends that this imputation requirement should be applied to all LEC services that have the potential for competition, not only services that are classified as "competitive," as required by Section 13-505.1 of the Act. Without imputation, it is unlikely that services that rely upon bottleneck LEC components can become competitive. AT&T Ex. 1.0 at 21-22.

**(8) Resale and sharing of exchange services without penalties.**

AT&T states that resale and sharing restrictions constitute barriers to local exchange entry that must be eliminated if effective local exchange competition is to develop. AT&T contends that removing these restrictions would reduce entry barriers by permitting new LECs to purchase unbundled monopoly network functions and combine those elements with their own network functions to create new services. Eliminating resale and sharing restrictions also would make it more difficult for LECs to discriminate among customers, thereby resulting in more efficient and economically appropriate pricing of LEC services. Cost-based pricing and resale obligations also require that wholesale prices not reflect retail costs that are not actually incurred by the incumbent LEC in their bulk offerings. *Id.* at 22-23.

**(9) Open technical standards for unbundled basic network components.**

AT&T contends that the incumbent LECs may impede competition by requiring the use of non-standardized interfaces for interconnection with unbundled network components. If the

incumbent LECs forced new LECs to use non-standard interconnection, the new LECs would incur increased costs for developing, installing, and maintaining these non-standard interfaces. AT&T also asserts that such technical standards should be uniform nationwide so that new LECs will not have to change their network interfaces state by state. *Id.* at 24.

## **MCI**

Dr. Charles B. Goldfarb, Executive Staff Member for Strategic Initiatives, testifying on behalf of MCI, identified "eight general steps" that must be taken to eliminate artificial impediments and to construct regulatory safeguards before a true market test can be performed to determine whether effective local exchange competition is possible. Dr. Goldfarb testified that these eight prerequisites are similar to AT&T's nine "conditions" for competition. MCI Ex. 1.0 at 7.

MCI recommends that the Commission take the following actions:

- (1) **Eliminate monopoly franchises, set equitable franchise fees and remove restrictions intended to ensure "revenue neutrality" for incumbent LECs.**

MCI states that it is not enough merely to eliminate barriers to entry; the Commission also must take action to avoid "artificially raising the costs of new entrants." MCI identifies franchise fees and certification requirements as regulatory requirements that can raise the costs of potential competitors artificially. MCI observes that LEC proposals to recover "public policy subsidies" from potential competitors also would raise new entrants' costs artificially and thus recommends that the Commission reject such proposals. *Id.* at 11-14.

- (2) **Ensure access to conduits, rights of way and entrance facilities for competitive local exchange service providers on the same terms as LECs.**

MCI explains that conduits, rights of way, entrance facilities and other pathways are essential facilities to local exchange services which the incumbent LECs acquired by virtue of their monopoly position and which competitors cannot duplicate. The incumbent LECs were granted rights of way and allowed to construct conduits under the aegis of the monopoly franchise position, which often gave them exclusive rights and guaranteed them a return on their investment in the conduits. Competitive providers cannot reach customers without the same rights of way and access to conduits. MCI Ex. 1.0 at 15.

- (3) Require "freedom of choice" for customers: local number portability; separate presubscription for intramsa toll, interLATA toll, and local service; no restrictions on resale of incumbent LEC services.

To give customers "freedom of choice," MCI argues, will require implementation of local service provider number portability and intramsa presubscription, as well as elimination of all restrictions on resale and sharing.

- (4) Require open and equal access to incumbent LEC bottleneck networks; full unbundling of functional network building blocks; interconnection wherever technically feasible.

MCI proposes full unbundling of LEC networks based on its concept of "building blocks." It states that the competitive provisioning of network building blocks requires fair and reasonable access (at all technically feasible points) to them. Thus, MCI views both full unbundling and interconnection as prerequisites to competition.

- (5) Grant co-carrier status to competitive local exchange service providers.

MCI defines "co-carrier status" to mean that "all local exchange service providers enjoy the same status as part of a network of competitive networks." MCI Ex. 1.0 at 27. Granting such status is critical to ensure that competitors have the same status with respect to compensation arrangements for terminating calls that originate on other carriers' networks, NXX code assignments, interoffice signalling arrangements, database access arrangements, billing record arrangements, directory listings, access to 911 services, and local number portability as incumbent LECs. *Id.* at 27-29.

- (6) Establish costing and pricing safeguards to protect against price discrimination, price squeezes and cross-subsidization by incumbent LECs.

MCI believes that regulatory costing and pricing safeguards are essential to permit competition to develop for local services. In the absence of such safeguards, it states that the incumbent LECs will have both the incentive and the ability to impede competition by misattributing their costs and setting rates in an anticompetitive fashion. MCI proposes several specific costing and pricing safeguards. *Id.* at 30-34.

- (7) Provide universal service in a cost-based, competitively neutral fashion.

MCI contends that the existing universal service funding mechanism is anticompetitive because it subsidizes the incumbent LECs, is designed to guarantee incumbent LEC revenue streams, and requires prices that cannot be sustained in a competitive market. It recommends instead that the Commission adopt its proposal for a new universal service funding mechanism that is funded and distributed in a competitively neutral manner. MCI also proposes auctioning of "carrier of last resort" responsibilities to permit new LECs to serve this function. *Id.* at 38-40.

- (8) Impose regulations on local exchange service providers commensurate with their actual level of bottleneck control or market power.

MCI observes that, because competition will develop at a different pace for different local exchange service markets, with incumbent LECs retaining pockets of monopoly power, regulatory relief for incumbent LECs must be commensurate with the reduction in their monopoly power. At the same time, there is no reason to impose regulations on new entrants who lack monopoly power, and in fact such regulation would impede competition by raising costs for no public policy reason. *Id.* at 41.

#### TCG's Nine Points

Mr. Paul Kouroupas, Regional Director of Regulatory Affairs for TCG's Eastern Region, presented TCG's position on the conditions required to permit local exchange competition. TCG believes that carriers require three things to compete effectively in local exchange markets: (i) competition must be legal; (ii) competition must be technically and operationally feasible, and (iii) competition must be economically viable. TCG Ex. 2.00 at 4. TCG views these three conditions as being consistent with AT&T's nine conditions, which it describes as "the most complete list of conditions which must be in place before a new local exchange carrier has the ability to effectively compete with the dominant LECs." TCG Ex. 2.00 at 3-4. As to the legal requirements for competition, TCG endorses AT&T's first two conditions (carrier certification and access to rights of way) and believes that AT&T "most fully addresses these legal requirements and the problems competitors may encounter in obtaining them." TCG Ex. 2.00 at 5.

To ensure that local exchange competition is technically and operationally feasible, TCG explained that local competitors need nine arrangements (referred to as "TCG's Nine Points"):

- (1) Central office interconnection;
- (2) Connections to unbundled network elements;
- (3) Seamless integration into LEC interoffice networks;
- (4) Seamless integration into LEC signalling networks;
- (5) Equal status in and control over network databases;
- (6) Equal status in and control over number resources;
- (7) Local telephone number portability;
- (8) Reciprocal inter-carrier billing; and
- (9) Cooperative practices and procedures.

TCG Ex. 2.00 at 9.

TCG's final condition, competitive viability, requires three elements: "(1) compensation for terminating traffic; (2) prices for the technical arrangements and interconnections are reasonable; and (3) imposition of "broad imputation requirements." TCG Ex. 2.00 at 19.

**Sprint's Proposed Conditions**

Sprint contends there are nine conditions that are necessary to make local competition possible. Mr. Mark Sievers, Sprint's Director of Regulatory Policy and Coordination, identified them as follows:

- (1) removal of all legal and regulatory barriers;
- (2) full local number portability;
- (3) unbundling of local services;
- (4) elimination of embedded subsidies and a competitively neutral subsidy system;
- (5) uniform standards and number administration;
- (6) effective customer choice of long distance companies;
- (7) reciprocal access to conduits and rights of way;
- (8) effective imputation; and

- (9) removal of resale and sharing restrictions.

Sprint Ex. 1.0 at 51-52.

**Illinois Bell's Proposed Principles for Designing and Implementing Competition Policy**

Illinois Bell witness Richard P. Kolb, Director - State Regulatory for Ameritech testified that the Customers First Plan is Ameritech's response to the ongoing fundamental restructuring of the telecommunications industry. The Plan responds to the emergence of significant trends toward competition for access and exchange services. The Plan does not, however, assume or depend on the existence of full competition, but rather seeks to foster it. Mr. Kolb stated that although the intrastate and interstate marketplaces already are the subject of significant competitive pressures, the Plan proposes further to facilitate effective competition for all providers. IBT Ex. 1.0 at 3-6

Dr. Robert Harris, a consulting economist, described the economic rationale for the Customers First proposal and explained how it would achieve the public policy objectives of the State of Illinois. He testified that competition has not yet developed to the point where market competition alone will ensure that public policy objectives are achieved. This implies that during the transition to a fully competitive telecommunications environment, the State of Illinois has an interest in ensuring that Illinois Bell has a fair opportunity to compete in the fastest growing, most profitable market segments, and that public policies recognize the important role that Illinois Bell has played and will continue to play in facilitating competition and interconnection.

Dr. Harris stated that regulatory and competition policies should be predicated on two sets of factors: the conditions in the industry and the objectives or goals of the policies. He identified the following telecommunications policy objectives: (1) Universal Service; (2) Allocative and Technical Efficiency; (3) Dynamic Efficiency and Innovation; (4) Promoting Competition; and (5) Infrastructure Development. Dr. Harris acknowledged that these objectives may be competing, and that "[g]ood public policy decisions often require making tradeoffs among competing objectives." IBT Ex. 2.0 at 37-41. He offered a set of "economic principles" that he believes should govern the introduction of local exchange competition. See IBT Ex. 2.0 at 37-44.

**(1) Remove barriers to entry and competition**

Illinois Bell argues that barriers to entry and competition should be removed "[w]hen technically feasible, and when balanced by appropriate changes in other regulations." It proposes to

eliminate existing barriers to competition for both interexchange and local exchange services. IBT Ex. 2.0 at 42.

(2) Substitute competition for regulation

Illinois Bell states that customer choices among competitive service providers constitute the best form of "regulation." As a result, Illinois Bell recommends that the Commission adopt policies that promote the "right" kind of competition, i.e., that which responds to real market demands and reflects real economic efficiencies. *Id.* at 42-43.

(3) Promote competitive neutrality

Illinois Bell states that regulatory policies should be competitively neutral. Illinois Bell opposes any rules that are designed to ensure the "competitive viability" of new LECs. It contends that potential exchange competitors are large companies or conglomerates of large companies with substantial resources and that the Commission should not design policies to protect such large companies from competition or to guarantee their success. At the same time, Illinois Bell contends that regulatory policies should "treat it fairly" because it will continue as the principal provider of exchange services during the transition to competition. IBT Ex. 2.0 at 43.

(4) Facilitate market responsiveness

Illinois Bell recommends that prices be set by market forces or set by regulations that emulate market forces. IBT Ex. 2.0 at 43-44.

(5) Synchronize regulatory and competition policies

To ensure that competitive forces drive market outcomes wherever possible, Illinois Bell asserts that regulatory policies must be "consistent with the actual and expected conditions in the marketplace." Specifically, it argues that "[c]ompetition should recognize when, and the degree to which, prices are not market-driven," so that price regulation can be limited to targeted exceptions where competition or customer discretion is inadequate to protect buyers from the exercise of market power. IBT Ex. 2.0 at 44.

GTE

Dr. Edward C. Beauvais, Senior Economist in the Regulatory Policy Department of GTE testified to several "cohorts" of conditions that should be addressed by the Commission prior to

expanding the role of competition for intraMSA and local exchange services:

- (1) Removal of inefficient entry barriers;
- (2) Efficient pricing of services;
- (3) Interconnection standards and associated arrangements including compensation;
- (4) New service introduction and unbundling; and
- (5) Regulatory treatment of all carriers. GTE Ex. 1.00 at 10-12.

#### **Staff's Seven Market Principles**

Ms. Charlotte F. TerKeurst, Director of Telecommunications Policy, Office of Policy and Planning, explained that Staff relied on several "overarching objectives or guidelines," referred to as "market principles," to formulate its recommendations on issues relating to local competition. Staff states that these market principles are in substantial agreement with the prerequisites, conditions, and principles put forward by other parties as being necessary to permit competition to develop. Staff however, has made its principles broader than those proposed by others, attempting to view the "forest" instead of just the "trees." Staff Ex. 1.00 at 16.

Underlying Staff's market principles is an overarching objective that "regulation should allow competition to develop and function whenever and wherever feasible, in a manner that is efficient (e.g., not uneconomic or driven by non-cost-based rate designs) and otherwise consistent with public interest objectives." *Id.* at 7. Staff also explains that the Commission must address two other fundamental issues concerning local exchange competition before it adopts a set of market principles to carry out such competition.

The first of these issues is the role that new LECs will play in local markets. Staff cautions that the Commission cannot predict now the level and ubiquity of service of new LECs and warns that a regulatory strategy which treats new LECs only as fringe providers could be self-fulfilling:

If regulation and the network structure are based on this view, it could become self-fulfilling, with the new LECs relegated to second-class status by virtue of the basic